ESO No. 8

A RETAIL FOOD STORE CASE STUDY

SUPER CITY NO. 2

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SUPER CITY NO.2*

Super City No. 2 is a 9,100 foot store (about 6,900' sales area) which is part of an eight store group. The headquarters staff is composed of the president serving as chief executive officer, the general manager, perishables managers, accountant, maintenance man, and secretaries. The organization is now looking for an additional staff member who will serve as security officer.

The store managers and headquarters staff meet once a week to plan, discuss questions and talk over problems and develop advertising and promotion. Both the headquarters staff and the managers view these meetings as important. The store managers in turn are responsible for training their employees.

The store managers primary responsibility is to secure an adequate (20%) return on investment. The general manager feels they have considerable freedom in operating their store to accomplish the objectives. Each manager is encouraged to develop their operations to meet the needs of customers in their area. The general manager indicated however that within this framework organization policies and procedures must be followed. Some degrees of merchan-

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dising and pricing changes are permitted if competition warrants adjustments.

At the present time about 65% of the employees are part time, 35% full time. The general manager feels this mix gives a degree of flexibility in scheduling to meet the needs at the stores. The store employees are not unionized.

The advertising and promotion program is planned four weeks in advance by the staff and the manager at the weekly sales meetings. Major decisions on adding and discontinuing items are also made at this time.

Store managers and department managers participate in a bonus system which rewards performance beyond budget standards. The entire management team is involved in adapting budgets. The performance is checked against store budgets which the store managers have participated in and developed and to which they have agreed. The budgets are adopted for the next year and are reviewed quarterly.

The group distributes a four page handbill the third week of each month. This is used for advertising as well as any promotions which may be planned (pointage, dish deals, etc.). Coupons are used extensively. The regular price is run on the register and the coupons value is subtracted.

The organization has experienced about 12% annual growth in both sales and net profit over the last five years.

Every 5 years stores are remodeled and reset. This schedule is a guideline only and may be adjusted as dictated by shopping pressures, competitive changes, and business conditions. The organization does its own work on store planning and then shops for letting the contract. The maintenance such as minor structual changes, cleaning shopping carts, and repairs.

Three stores of the group are owned, the rest are leased. Leasing is favored to maximize use of capital.

The supplier is FVA with SS as a secondary source. Four packers supply most of the fresh meats. The stores utilize the grocery, produce, frozen food and meat program at FVA About 30% of the produce is secured on the local market, especially during the growing season. Health and beauty aids, soft goods and kitchen utensils are job racked.

Competition in the area is from two chains who have about 44% of the business in the metropolitan area. Additional competition for store No. 2 comes from a discount supermarket combination which was recently purchased by an aggressive regional chain. These are located more than 1.5 miles from store number two. Closest competitors (within one mile) include several small stores and one small independent supermarket.

Store no. 2 has an estimated trading area about 2 miles by 3 1/2 miles. This trading area has about 1750 families. This trading area has not experienced an explosive growth during recent years. The income of families in this area is below the average of the county. Average family income in the county is estimated at $11,800 for

1970. Total food store expenditure per family is estimated at $1,485 per year. Wage earners in this area are largely blue collar, live in modest, older homes, and about 20% of the stores customers are black.

Store No. 2 is on the process of being reset. The floor plan of the new layout is illustrated by the sketch on the following page. The perimeter shopping has been rearranged and now frozen food multideck cases added to provede more space. Plans were developed by the headquarters staff and the store managers.

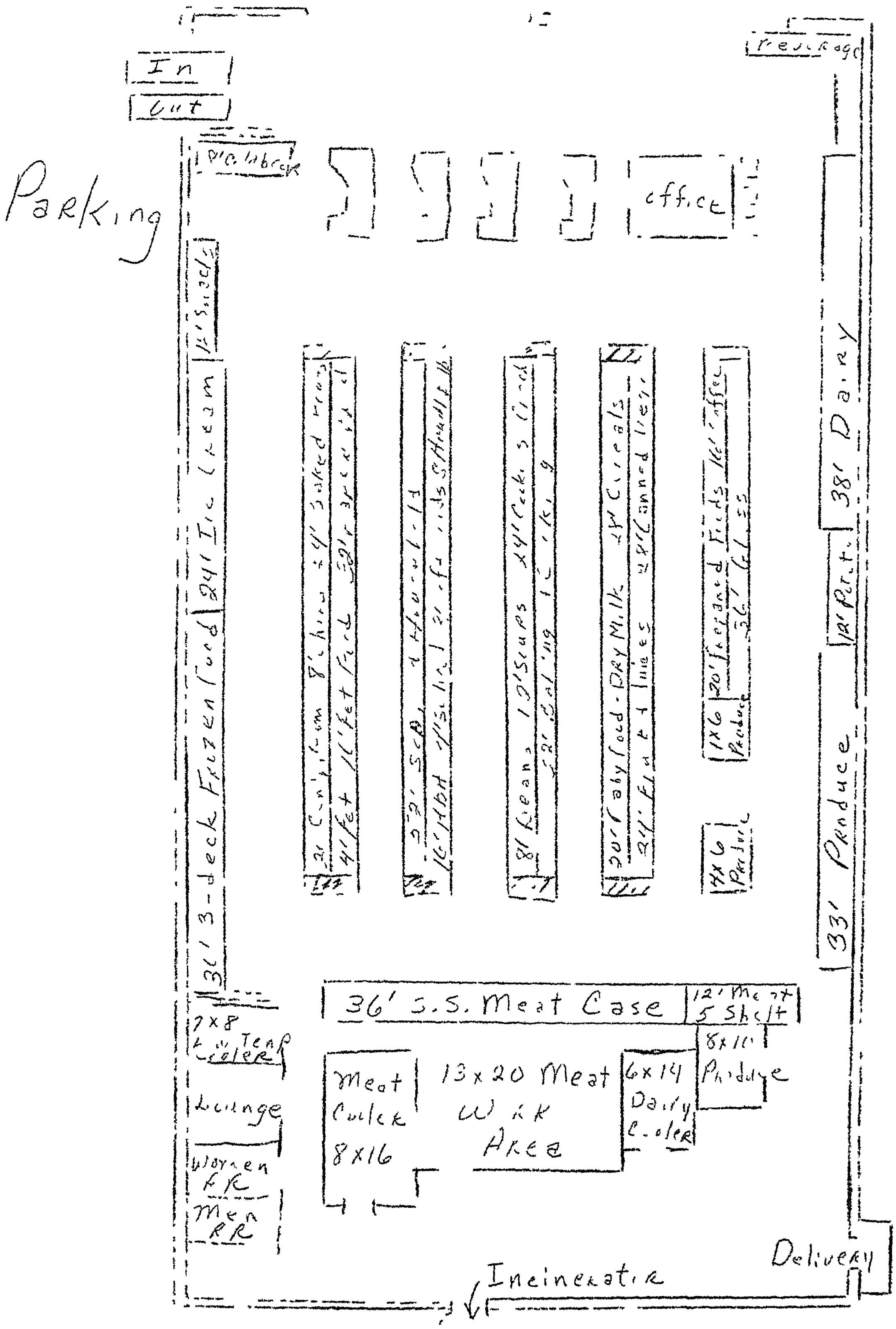
At the end of the last reporting period assets totaled $89,000. This included $5,000 cash, $18,500 accounts receivable and $36,000 merchandise inventory. Fixed and other assets totaled about $30,000 of which 14,000 was bank value of store equipment.

Current liabilities totaled $46,000 of which $34,000 was accounts payable. The store has no long term debt. Total owners equity (retained earnings and common stock) was $41,000.

Sales in the last period averaged $21,400. Gross profits were 18.8% of sales plus .1% for earned discounts for a total gross income of 18.9%. Major expense categories were salaries and wages 6.15% operating expenses, 5.47%, sales expenses 1.46%, administrative expenses 1.85% and depreciation .47%. Total expenses were 15.39 minus .10% for other income and expense.

Sales distribution for the last period was grocery 63.3%, meat 21.53%, produce 5.03%, dairy 10.41%. Gross profit figures were grocery 18.0%, meat 20.15%, produce

Super City No. 2



22.44%, dairy 13.98%. Labor factors were grocery 3.06%, meat 5.81%, produce 5.63%, dairy 2.39%. Store sales per man hr. were \$35.72. Total wages paid by departments per week in the last accounting period were grocery \$412, extra help \$[illegible].50, meat \$268, produce \$61, dairy \$53, checkout \$184, carryout \$338.

Advertising expense was .98% of sales, promotion .48%.

Administrative services included headquarters service, office supplies, bank service charges, telephone, dues and subscriptions, licenses and fees, bad checks, cash variation, taxes, professional services, interest expense and contributions.

The manager of the store is quite proud of the productivity of the store and his people. He feels that remodeling the store should add another 10% to volume over the next year. He feels he can compete in this trading area with the larger chain stores close to him.

A customer survey of the area last summer showed the store did have strengths and weaknesses (in the customers mind). A summary of one of the questions is shown in the following table.

The supervisor of FVA pointed out that large numbers in the table are the percentage of the stores customers who gave the item as a consideration when choosing a store to shop. In effect a large number in the table compared with the other stores denotes a favorable image for that line item. These surveys have proven satisfactory when the trading area of the store under consideration can be accurately identified.

MARKET ANALYSIS-CUSTOMER RESPONSE

WHAT CONSIDERATIONS ARE IMPORTANT
TO YOU IN SELECTING A FOOD STORE?

Characteristic	Responses by Customers Who Shop Primarily at (%)				
	Local Chain	National Chain	Discount	Store 2	Independent
Store Cleanliness	48	26	20	10	17
Arrangement	25	15	5	3	7
Convenience	20	14	9	8	23
Familar with store, habit	13	2	2	7	16
Parking and carryout	5	5	3	2	5
Wellstocked attractive	12	8	2	2	3
Employees Courteous					
friendly, & helpful	17	24	22	27	31
Quick co.	6	4	15	4	3
Honesty, fair dealing	3	1		2	3
Prices Advertising					
Promotion					
Attractive competitive prices	30	12	15	12	10
Lower Prices	25	7	30	12	12
Bargains available		2	15	5	7
Stamps given		5			
No Stamps	5		7	14	10
Products					
Meat Quality freshness	27	22	19	25	20
Lower meat prices	5		2	5	5
Produce Quality freshness	19	14	9	17	10
Brand names available	7	7	2	9	5
Large selection of items	7	22	23	4	5
Good Quality merchandise	3	6	8	4	10
Miscellaneous		2	5		9
Store Image Index	99	126	109	82	85

The general manager feels that a $30,000 weekly sales volume netting 3% before taxes is a realistic goal for this store. The store manager has doubts whether this $30,000 goal is realistic. He feels they will peak soon after the remodeling is completed, unless grocery gross margins are reduced. He doubts however that profits can be sustained on a discount program in this location.

In receiving the results of the survey the president is not happy with the cleanliness rating by customers. He suggests that the general manager instruct the store manager to work out a schedule for floor cleaning, and other housing chores with the store manager.

The store manager indicates the survey confirms his opinions about what customers think of their price structure. He wonders if they might do better with a semi-discount program similar to that of the local chain.

The general manager points out that this program is aimed at more the price, that profit rise in the store in two years has come from a loss situation to one netting about 3%. As he puts it "no other store in this survey can make a similar statement. Our strengths in our own perishables operations."

All three men are disturbed by the survey which indicated that this store had the smallest average sized families and that these families spent fewer dollars on food than customers at any other store.

Put yourself in the place of the general manager for this organization.

1. Is the store reaching its established objective?
2. What changes would you make in the organization and the store?
3. Is a $30,000 sales volume realistic for this store?

SOME CHOICES IN ORGANIZING CASE STUDIES PRESENTATIONS

Working through case studies in small groups can be a rewarding experience. One of the benefits certainly is the exchange of views, experiences, and facts between members of the group. Because the group is small, each one has the opportunity to hear, be heard, and above all think through a specific situation.

One of the frustrations for some participants working with case studies is the fact that problems are really not identified in the case nor is much help given on how an analysis may be organized. It is to this last point that several choices are offered here. Perhaps the group should read the case first, look over these choices for ideas on how to go about it, and then choose one that you feel the group can work around.

CHOICE I:

1. What is the objective (or objectives) of this business?

2. What would you establish as reasonable realistic objectives?

3. How would you go about reaching the objective you have established?

CHOICE II:

1. What do you think the problem (problems) is?

2. What are the pertinent important facts in this case?

3. If you were in charge of this business, would you see these as alternatives or choices?

4. What is a realistic set of goals for this business?

5. What decisions would you make over the next six months, and in what order should these decisions come?

CHOICE III:

1. What are the weaknesses of this store?

2. What are the strengths of this store?

3. What changes would you make in the next 30 days?

4. What changes would you make in the next six months?

5. Identify one overall goal you feel is realistic for this store within one year?

CHOICE IV:

Use a marketing mix approach. Take a look at the store as it is now. Decide what changes need to be made in each of the elements listed below to achieve the objectives you set for this store. The elements of a marketing mix focus first on the customers. These elements are:

1. The store--facilities, arrangement, parking, etc.

2. Employees & Service--attitudes, courtesy, service

3. Price--policies, image, price-quality relations

4. Advertising & Promotion--media, give-aways, coupons, games, timing

5. Products Offered--selection, variety, quality, freshness